

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

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CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 6207

INFO AMEMBASSY BUENOS AIRES

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C O N F I D E N T I A L SANTIAGO 5065

EO 11652: GDS

TAGS: ECON, CI

SUBJECT: ECONOMIC PROGRAM GOES FORWARD

REF: A) SANTIAGO 4862; B) SANTIAGO 4907

SUMMARY. CIVILIAN ECONOMIC ADVISERS TO MILITARY JUNTA BELIEVE THEIR SHORT TERM AND MEDIUM TERM PROGRAMS HAVE BEEN COMPLETELY ADOPTED. SUCH OPPOSITION AS EXISTED HAS BEEN OVERCOME WITH HELP OF RAUL SAEZ WHO HAS BEEN SOLD ON TECHNOCRAT PROPOSALS. MASSIVE PRICE ADJUSTMENTS ARE BEING ANNOUNCED DAILY WHICH MAY RAISE INFLATION FOR THIS YEAR TO 500-600 PERCENT. DIRECT AND INDIRECT SUBSIDIES SKEWED TOWARD LOWEST INCOME GROUP HAVE BEEN ESTABLISHED. MORE PERMANENT INCOMES POLICY WILL BE DECIDED IN EARLY 1974 AFTER ECONOMY SHAKEN OUT OF ITS LARGE DISTORTIONS. END SUMMARY.

1. FOLLOWING ARE MAJOR POINTS EMERGING FROM OCT 16 CONVERSATION BETWEEN EMBOFFS AND SERGIO DE CASTRO, PRINCIPAL ADVISOR TO MINISTER OF ECONOMY AND HEAD OF CATHOLIC UNIVERSITY ECONOMICS DEPARTMENT:

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A. GOC HAS ADOPTED "99 PERCENT" OF SHORT AND MEDIUM TERM PROGRAM PROPOSED BY TECHNOCRATS. MOREOVER, ALL DECISIONS TAKEN

SO FAR CONCERNING LONG TERM GOALS ARE CONSISTING WITH PROGRAM REPORTED REFTEL. TO DATE ONLY ONE COUNTER STRATEGY HAS BEEN PUT FORWARD (RECOMMENDING GRADUALIST APPROACH TO BASIC CHANGE) AND THAT HAS BEEN SOUNDLY DEFEATED AFTER HEATED DEBATE. RAUL SAEZ HAS BEEN CONVINCED THAT TECHNOCRATS PROPOSALS ARE SOUND AND FULLY SUPPORTS THEM. TECHNOCRAT'S SUSPICION OF SAEZ HAS NOW BEEN LARGELY DISSIPATED, PARTICULARLY SINCE HE WAS INSTRUMENTAL IN SELECTION OF FERNANDO LENIZ (VERY CAPABLE MANAGER AND EXPERIENCED BUSINESSMAN) TO BE MINISTER OF ECONOMY, INSTEAD OF TAKING JOB HIMSELF.

B. PRICE AND WAGE POLICIES ARE TAKING SHAPE. TECHNOCRATS HAD TO THROW IN IDEA OF ESCUDO 12,000 MINIMUM MONTHLY TOTAL INCOME FOR ALL WORKERS TO GET JUNTA'S APPROVAL FOR TREMENDOUS PRICE INCREASES IN MANY BASIC ITEMS. (FOR EXAMPLE, BREAD RAISED FROM E. 11 PER KILO TO E. 40; SUGAR FROM E.25 PER KILO TO E. 120; EDIBLE OIL FROM E.73 PER LITER TO E.300; MOVIE TICKETS FROM E.20 TO E.130; GASOLINE AND LUBRICANTS REPORTEDLY ABOUT 700 PERCENT, ETC.) THERE IS NO DECISION AS YET ON HOW MINIMUM INCOME PAYMENTS WILL BE HANDLED ADMINISTRATIVELY. WAGE ADJUSTMENT POLICY FROM OCTOBER THROUGH END 1973 IS GENERALLY SKEWED TO FAVOR LOWER INCOME GROUP; I.E., MINIMUM FAMILY ALLOWANCES GREATLY INCREASED AND ONE OF BONUSES LIMITED TO 5 SUELLOS VITALES. RATIONALE FOR TRYING TO MAINTAIN INCOMES OF POOR ACCORDING TO DE CASTRO IS BOTH HUMANITARIAN AND HOPE OF DENYING POLITICAL SUPPORT FOR EXTREMIST ELEMENTS WHO MIGHT SOON BEGIN GUERRILLA WAR.

C. IN CASES WHERE SUBSIDIES ARE REQUIRED, THEY ARE BEING PAID DIRECTLY TO CONSUMERS AS OFTEN AS POSSIBLE. IN A CASE SUCH AS TRANSPORTATION, BONUS TO WORKERS WILL PARTIALLY OFFSET HIGHER FARES. IN OTHER CASES SUCH AS BREAD, FLOUR, COOKING OIL AND SEVERAL OTHER FOOD PRODUCTS, GOC HAS DECIDED TO ABSORB LOSSES IN PRODUCTION PROCESS TO KEEP PRICES DOWN. ECONOMISTS REALIZE THAT WHEN PRICES HAVE BECOME TOTALLY UNREALISTIC, AS IN CHILE, A CERTAIN AMOUNT OF TRIAL AND ERROR WILL BE REQUIRED BEFORE A NEW SYSTEM CAN BE DEVELOPED. MEANWHILE, GOC PLANS TO HOLD LINE AGAINST REQUEST ALREADY COMING IN FOR EXCEPTIONS TO GENERAL POLICIES. BY EARLY 1974 TECHNOCRATS HOPE THAT ECONOMY

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HAVE SHAKEN OUT ENOUGH SO THAT LONGER TERM DECISIONS ON PRICES AND INCOME POLICY CAN BE MADE.

D. CONSUMER PRICE INDEX (CPI), WHICH SHOWED 150 PERCENT INFLATION JANUARY-AUGUST 1973, MAY HIT 500-600 PERCENT BY END THIS YEAR. RAPID BUT DIMINISHING INFLATION WILL CONTINUE IN 1974 WITH TOTAL IN THAT YEAR PERHAPS REACHING 200 PERCENT. DECISION HAS BEEN MADE TO KEEP CPI, BECAUSE SO MANY OTHER ADJUSTMENTS IN ECONOMY ARE DEPENDENT UPON IT, EVEN THOUGH IT HAD BECOME HIGHLY DISTORTED UNDER UP.

E. BUSINESSES ARE STARTING TO FEEL PINCH IN WORKING CAPITAL. THIS WILL BE MET BY LOOSENING OF BANK CREDIT. TECHNOCRATS UNDERSTAND THAT INCOMES POLICY COULD RESULT IN INSUFFICIENT DEMAND FOR INCREASED OUTPUT BEING PLANNED. THIS PROBLEM WILL BE ATTACKED THROUGH MONETARY AND FISCAL POLICIES. EXPORT RATE OF E.110 FOR ALL NON-MANUFACTURED COPPER EXPORTS IS ADEQUATE FOR GRAN MINERIA BUT WILL HAVE TO BE RAISED FOR SMALL AND MEDIUM MINING. IT WAS APPLIED TO ALL COPPER EXPORTS IN RECENT DEVALUATION BECAUSE DIFFICULT PROBLEM OF DETERMINING WHICH MINES WERE IN THE LARGE CATEGORY WAS CONSIDERED TOO TIME CONSUMING.

2. TECHNOCRATS WOULD HAVE PREFERRED ECONOMIC MEASURES TO HAVE BEEN TAKEN SOONER AFTER COUP, BUT REALIZED THAT THEIR CREDENTIALS HAD TO BE ESTABLISHED WITH MILITARY BEFORE CERTAIN DECISIONS COULD BE MADE. DE CASTRO SAYS THAT IN MOST CASES ECONOMIC DECISIONS ARE REACHED BY MINISTERS INVOLVED IN PRESENTING PROBLEM TO JUNTA AND THEN HAVING ADVISERS GIVE ANALYSIS. AFTER HEARING ARGUMENTS, SOME MEMBER OF JUNTA WILL USUALLY ANNOUNCE DECISION ON SPOT, INDICATING THERE HAS PROBABLY BEEN PRIOR CONSULTATIONS BETWEEN JUNTA MEMBERS. MILITARY CHIEFS SEEM TO BE WORKING WELL TOGETHER. DE CASTRO COMMENTED THAT PINOCHET IS MUCH MORE INTELLIGENT AND PENETRATING THAN HE APPEARS ON FIRST IMPRESSION. ADMIRAL MERINO STRIKES DE CASTRO AS QUIET AND STRONG, AND GENERAL LEIGH AS BEING VERY FIRM AND DECISIVE. GENERAL MENDOZA DOES NOT APPEAR TO PLAY MAJOR ROLE IN JUNTA. TECHNOCRATS ARE STILL WORKING AS A TEAM AND MEET FREQUENTLY TO COORDINATE POLICY POSITIONS.
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